

THE CORRELATION BETWEEN HUMAN CAPITAL AND GROSS ADDED VALUE IN THE BIOECONOMY SECTORS AT THE EUROPEAN UNION (EU) COUNTRY LEVEL

Associate Professor Olimpia Neagu, PhD

"Vasile Goldiș" Western University of Arad, Romania
E-mail: olimpian2005@yahoo.com

Professor Florin Dumiter*, PhD

"Vasile Goldiș" Western University of Arad, Romania
E-mail: fdumiter@yahoo.com

Associate Professor Alexandra Braica, PhD

"Vasile Goldiș" Western University of Arad, Romania
E-mail: alexandra.braica@gmail.com

Assistant Professor Ștefania Jimon¹², PhD Student

¹"Vasile Goldiș" Western University of Arad, Romania
²"Lucian Blaga" University of Sibiu, Romania
E-mail: jimonestefania@yahoo.com

Associate Professor Gabriela David, PhD

"Vasile Goldiș" Western University of Arad, Romania
E-mail: dvd_gbr@yahoo.com

(Received: October 2018; Accepted: January 2019; Published: March 2019)

Abstract: The paper aims to prove the link between human capital and gross added value in bioeconomy sectors in the EU countries. Data from EUROSTAT data base regarding employment and gross added value in 6 bioeconomy sectors were used in a cross-country regression analysis. The econometric analysis of cross-country data shows a positive correlation between human capital in bioeconomy sectors and their gross output in 2015 in 26 European countries. It is found also that the correlation is stronger in the highly developed economies as in the central-eastern countries, as well as in the European economy.

Keywords: competencies, green economy, smart economy, development.

JEL Codes: Q20, Q57, M10, M12.

* Corresponding author: Florin Dumiter. E-mail: fdumiter@yahoo.com

1. Introduction

The notion of human capital has gradually developed beginning within the observation of Adam Smith (1776) according to which the acquisition of personal skills and talents are used in economic processes.

At first, the human capital is defined as a result of education through which were developed some competences, abilities and skills (Schultz, 1961; Becker, 1975; Nelson & Winter, 1982; Coleman, 1988), but nowadays, human capital is considered to be more than cognitive abilities and incorporates all characteristics of an individual, both the cognitive ones and also the un – cognitive ones, intra – personals and inter – personals. Thereby, the personal experiences, creativity, motivation, the temperament, emotional intelligence and health status are considered as a component part of human capital (Tomer, 1999; Leliaert et. al., 2003; Luthans et. al., 2004; OECD, 2011).

In the official document Readiness for the Future of Production Report 2018 (World Economic Forum, 2018), human capital reveals himself as a determinant factor of socio – economic development. Technical development and technological innovation generates new challenges vis – á – vis of labor market, also requiring the acquirement of new skills from human capital perspective.

Also, beside technological development, in the last decade it is noted an increased interest given to bioeconomy and to promote the green and smart economy (European Commission, 2011). Worldwide it can be noticed a convergence oriented towards the optimization of economic processes for an efficient utilization of increasingly limited resources.

The usage of knowledge regarding the cellular processes, integration of biomass and biotechnology in developing new products will produce significant changes in global economy in the future, being necessary the adaptation at the new requirements of labor market.

It can be notice, therefore, an obviously link between the quality of human capital, bio-economy and sustainable economic development. Roth (2017) argues the impact and costs of pollution on educational level, and implicitly on human capital formation. The results of the researches made by the author above mentioned attract the attention to the fact that air pollution leads to scholar absenteeism, and forward, to diminished quality of human capital by limited knowledge, abilities and skills, consequences that will restrict the accessibility on labor market.

Therefore, in the new era of biotechnology and digitalization, the success is given by the diversified abilities and transversal skills development (Anderson, 2017).

In this article, we tackle the connection between human capital and gross added

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value in the bioeconomy sectors in the UE country level. The paper is constructed by the following manner: in the starting part of the article the introduction represents a veritable caveat regarding the assessment of human capital importance and its impact upon bio economy; in the second section we have enacted the literature review, within a veritable quid pro quo between human capital and bioeconomy; the third section represents the author's contribution throughout highlighting the nexus or connection between human capital and gross added value, especially throughout modelling the correlation between these two variables in the UE member states. In the final part of the article we present the concluding remarks of the empirical study with the presumed scientific impact upon the relevant literature in this field, meanwhile the appendix will reveal some important features for the fulfillment of the econometrical tests within additional technical specification.

2. Literature review

2.1. Human capital

Moses Abramovitz (1956) notices and describes an existing gap regarding the capacity of traditional production factors to lead the complete economic growth, fact which points out to the aim of existing knowledge, skills and personal abilities in the labor market.

Therefore, Mincer (1958) considers that the accumulation of knowledge and experiences through education will lead in future to greater benefits. A recent study about sustained economic growth in China shows that educational politics and the quality of education act had beneficial effects on national labor market and will maintain the economic growth in the next 20 years (Li et. al., 2017). This fact is also noted in other studies referring to the aim of education in development and economic growth (Lafuente & Rabetino, 2011; Neagu, 2012; Pribac & Anghelina, 2015; Massingham and Tam, 2015).

Together with education, Schultz (1961) appreciates that medical status has an important role in economic development. Policies to reduce malnutrition and the findings of new methods on prevention, diagnostics and therapies, had determined the life quality improvement and the mortality decrease, which led to increased work productivity (Goldin, 2016).

Because of the augment of social protection systems and medical services, appeared modifications in the structure of population. In member states of European Union it can be notice the increased life expectancy and the decrease of natality, reality which from the human capital perspective has to be looked as an

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accumulation of human capital with knowledge and rich experience, useful to create economic value (Goldin, 2016).

Schultz's outlook is developed by Becker (1975) who considers that all cost made for the development and protection of human capital represents' investments from which future benefits will be earned. This concept is also sustained by Kucharčíková & Mičiak (2017), which highlight the fact that the value of an enterprise is given by the investments in human capital, regarded as an intangible and untraded asset, a "shadow" asset which "should be treated as part of a person's endowed wealth" (Chen et. al., 2006, pp.104).

2.2. Bioeconomy

Bioeconomy appears as a form of maintaining the durable economic development in the context of limited quantitative and qualitative resources, changes of the climate conditions and environmental degradation. Concrete, through bioeconomy is understood the efficient and effective usage of natural resources (European Commission, 2012; Scarlat et. al, 2015), which according to Mazza & ten Brink (2012) are economic assets crucial for the economic growth process.

The objective of bioeconomy is to promote the usage of renewal biologic resources and alternative sources of energy as inputs in technological processes (Pfau, et. al., 2014; Kleinschmit et. al., 2014; Bugge et. al., 2016). In this purpose, bioeconomy is interconnected with green economy to conserve the environment, and also with circular economy to reduce the scraps and wastes from economic processes (Ollikainen, 2014; Szekacs, 2017). Even if these three domains take action on three different directions, the final aim of these is environmental protection and socio – economic development (D'Amato et. al., 2017).

Although bioeconomy is the oldest branch of economy, the importance given to this significantly rise after 2000, at the moment being a new standard in sustainable development (Ipate et. al., 2015) due to promotion of sustainable use of existing resources (Schimd, Padel & Levidow, 2012).

European Commission (2012), in the official document of Innovating for Sustainable Growth: a Bioeconomy for Europe establishes the strategy to promote bioeconomy in the community, the main directions being: food security, natural resources sustainability, diminishing climate changes, maintaining competitiveness and creating jobs. McCormick & Kautto (2013) draw the attention on the necessity of a sustained common effort from government, industrial sector and population to ensure the success of this step.

A study made in 2014 analyses the progress of bioeconomy in European Union and the impact of socio – economic, legislative, technological and marketing impact. In

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this study, there are identified the challenges crossed and proposed in three main directions of action regarding the development of bioeconomy: investments in research, innovation and new skills acquirement; involvement and interaction between decision factors and other stakeholders; development of market competitiveness (Ten Pierick et. al., 2010; M’Barek et. al., 2014).

According to Padel et. al. (2010), bioeconomy gives a safety degree due to protection and efficient use of resources, and thanks to the development of new forms of economic activities, this determines a growth of added value and contributes to income redistribution. On the other hand, has to be given attention to the risk that may come and also to the ethical problems implied (Hilgartner, 2007; IRGC, 2008).

Ronzon et. al. (2017) proposes the quantification of bioeconomy in European Union starting from the turnover value and the number of employees in this sector. The empirical results show up that the largest share of bioeconomy sectors are productive, the greatest success being recorded into agricultural sector and food, drinks and tobacco industry. It had been recorded similarities and differences between countries, useful to build and develop new strategies to promote bioeconomy on a country level.

By developing new processes and products, bioeconomy is an innovative field which ensures sustainable development and produces socio – economic added value. To accomplish these aims, it is necessary a multidisciplinary approach which reunify the domains of economics, technical and technological, biological, social and human capital development throughout acquiring the adequate competencies that can satisfy the requirements existing on the labor market.

3. Metodology and empirical data

The paper used data extracted from Eurostat for the 28 EU Member States in 2015. Within the analysis, 26 EU countries are considered; Luxembourg and Malta were excluded due to the lack of data. We considered the number of employees (thousand) in the bioeconomy sectors as a proxy variable for human capital. The dependent variable is the gross added value (GVA), measured in million Eur. (current prices) created in 6 bioeconomy sectors: Agriculture, Forestry, Fishing and aquaculture, Manufacture of food, beverages and tobacco, Manufacture of wood and Manufacture of paper.

We estimate the dependency between GAV and EMPL through the following regression equation:

$$GVA_{is} = \alpha + \beta \cdot EMPL_{is} + u_{is}, \quad i=1,..26, s=1,..,6 \quad (1)$$

where: i denotes the country, s denotes the sector and u_{is} is the error term.

$$u_{is} = \mu_i + v_{is} \tag{2}$$

μ_i denotes the unobservable country specific effect and v_{is} is the disturbance related to differences between bioeconomy sectors within countries.

We assume that there are two possible econometric models: (1) fixed effect model (FE) – where the variation across countries can be correlated with the independent variable (employment) and the effects of bioeconomy sectors are not taken into consideration and (2) random effects model (RE) – where the variation across countries is random and uncorrelated with the independent variable (see Hsiao, 2002).

We chose the appropriate model by using the Hausman test (see Clark and Linzer, 2012):

$$H = (\hat{\beta}_{RE} - \hat{\beta}_{FE})' [Var(\hat{\beta}_{FE}) - Var(\hat{\beta}_{RE})]^{-1} (\hat{\beta}_{RE} - \hat{\beta}_{FE}) \tag{3}$$

H denotes the chi-square distribution with degree of freedom equals to the number of regressors in the model.

In the case of no correlation between independent variable and country effects, the estimates of β in fixed effects model ($\hat{\beta}_{FE}$) should be similar to the estimation of β in random effects model ($\hat{\beta}_{RE}$). The null hypothesis presumes that the random effects model is appropriate.

When p is less than 0.05 (the conventional level of significance), the null hypothesis is rejected in the favour of the fixed effects model. In the opposite case, when the Hausman test does not indicate a significant difference ($p > 0.05$), the null hypothesis is accepted meaning that the random effects model is appropriate (see Clark and Linzer, 2012).

In order to carry out the econometric analysis the STATA 13.1 software was used.

4. Empirical results

The results of the estimation of equation 1 in the two models (fixed – effects and random – effects) are exposed in Table 1.

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Table 1 Fixed-effects and Random-effects model

Fixed-effects (within) regression = 156 Group variable: Country = 26 R-sq: within = 0.2981 min = 6 between = 0.3745 6.0 overall = 0.3121 6 54.78 corr(u _i , Xb) = 0.1105 0.0000	Number of obs Number of groups Obs per group: avg = max = F(1,129) = Prob > F =	Random-effects GLS regression = 156 Group variable: Country groups = 26 R-sq: within = 0.2981 min = 6 between = 0.3745 6.0 overall = 0.3121 6 = 67.64 corr(u _i , X) = 0 (assumed) 0.0000	Number of obs Number of Obs per group: avg = max = Wald chi2(1) Prob > chi2 =
----- GVA Coef. Std. Err. t P> t [95% Conf. Interval] ----- Empl 14.53333 1.963683 7.40 0.000 10.64814 18.41853 _cons 1973.585 523.7706 3.77 0.000 937.2922 3009.878 ----- sigma_u 3604.9097 sigma_e 5937.5381 rho .26933567 (fraction of variance due to u _i) ----- F test that all u _i =0: F(25, 129) = 2.18 Prob > F = 0.0025	----- GVA Coef. Std. Err. z P> z [95% Conf. Interval] ----- Empl 15.27935 1.857836 8.22 0.000 11.63806 18.92064 _cons 1890.052 730.8829 2.59 0.010 457.5477 3322.556 ----- sigma_u 2618.9964 sigma_e 5937.5381 rho .16287276 (fraction of variance due to u _i) -----		

Source: authors' computation using STATA 13.1 software.

We use the Hausman test in order to select the appropriate model (Table 2).

Table 2 Hausman test

```

hausman fe re
-----+-----
      |          |          |          |          |
      | (b)      (B)      (b-B)  sqrt(diag(V_b-V_B))
      | |      fe      re      Difference      S.E.
-----+-----
Empl | 14.53333  15.27935  -.7460181  .6359999
-----+-----
b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
      chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)
              =      1.38
      Prob>chi2 =      0.2408
    
```

Source: authors' own computation using STATA 13.1 software.

Due to the fact that the value of Probchi2 is 0.2408 higher than 0.05 (the significance level) the Ho hypothesis is accepted and the random – effects (RE) model is selected (Table 1).

According to the data displayed in Table 1, the estimated equation 1 is the following:

$$GVA_{is} = 1890.052 + 15.27935 \cdot Empl_{is} \tag{4}$$

(0.01) (0.000)
 (730.8829) (1.857836)

In this equation the value of P for the constant term (1890.052) is $0.01 < 0.05$. For the coefficient of the variable Empl, the value of P is $0.000 < 0.05$. The model can be statistically validated, as a whole, for a significance threshold of 5%, due to the fact that Prob is $0.000 < 0.05$ (Table 1).

The estimated robust standard errors are reported in the Table 3.

Due to the fact that Prob and P are lower than 0.05 the model can be validated. We notice also, that the estimates of coefficients and errors in Table 3 are the same as those produced by the command xtreg re.

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After running the tests of heteroskedasticity across panels, autocorrelation within panels and correlation across panel by using the command xtglm in Stata (with the options: panels (hetero), panels (correlated), panels (hetero) corr, panels (hetero) corr (ar1), panels (hetero) corr (psar1), panels (iid) corr (psar1)) we noticed that (see Appendix):

- in all cases the value of Prob was lower than 0.05;
- the variance of each of the panels differs, the presence of heteroskedasticity being identified;
- the correlation parameter is unique for each panel;
- there is no correlation across panels;
- the errors within panels are independent;
- in each panel the AR1 process is similar.

Table 3 Estimates of robust standard errors

```

. xtreg GVA Empl, re theta

Random-effects GLS regression           Number of obs   =   156
Group variable: Country                 Number of groups =   26
R-sq:  within = 0.2981                   Obs per group:  min =    6
      between = 0.3745                     avg =    6.0
      overall = 0.3121                     max =    6
                                         Wald chi2(1)    =   67.64
                                         Prob > chi2     =   0.0000

corr(u_i, X) = 0 (assumed)
theta       = .3207439

-----+-----
GVA |   Coef.   Std. Err.   z   P>|z|   [95% Conf. Interval]
-----+-----
Empl | 15.27935  1.857836   8.22  0.000   11.63806   18.92064
_cons | 1890.052  730.8829   2.59  0.010   457.5477  3322.556

-----+-----
sigma_u | 2618.9964
sigma_e | 5937.5381
rho    | .16287276 (fraction of variance due to u_i)
    
```

Source: authors' own computation using STATA 13.1 software.

According to the above analysis, the active human capital in the bioeconomy sectors expressed by the number of employees has a positive statistically validated influence on the gross output of these sectors in 26 European economies. When the number of employees increases with one unit, the increase of GVA is of 15.27935 units.

Presuming that there are significant differences between western and eastern – central European economies affecting the analysis, we run the regression equation

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1 by splitting in two the 26 economies: the group of 15 high developed economies (Belgium, Cyprus, Germany, Italy, France, Spain, Greece, Netherland, Denmark, Finland, Austria, Portugal, Ireland, Sweden, United Kingdom) and the group of 11 developing countries (Bulgaria, Croatia, Czech Republic, Estonia, Lithuania, Latvia, Hungary, Poland, Slovenia, Slovakia, Romania).

Through running the Hausman test, we choose the random effects model for the group of western countries and the fixed effects model for the eastern – central European countries. Table 4 reports the estimations of equation 1 for the two groups of countries. Due to the fact that Prob and P are lower than 0.05 the model can be validated. We notice also, that the estimates of coefficients and errors in Table 3 are the same as those produced by the command xtreg re.

After running the tests of heteroskedasticity across panels, autocorrelation within panels and correlation across panel by using the command xtgls in Stata (with the options: *panels (hetero)*, *panels (correlated)*, *panels (hetero) corr*, *panels (hetero) corr (ar1)*, *panels (hetero) corr (psar1)*, *panels (iid) corr (psar1)*) we noticed that (see Apendix):

- in all cases the value of Prob was lower than 0.05;
- the variance of each of the panels differs, the presence of heteroskedasticity being identified;
- the correlation parameter is unique for each panel;
- there is no correlation across panels;
- the errors within panels are independent;
- in each panel the AR1 process is similar.

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Presuming that there are significant differences between western and eastern – central European economies affecting the analysis, we run the regression equation 1 by splitting in two the 26 economies: the group of 15 high developed economies (Belgium, Cyprus, Germany, Italy, France, Spain, Greece, Netherland, Denmark, Finland, Austria, Portugal, Ireland, Sweden, United Kingdom) and the group of 11 developing countries (Bulgaria, Croatia, Czech Republic, Estonia, Lithuania, Latvia, Hungary, Poland, Slovenia, Slovakia, Romania).

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Table 4 Results of estimation of equation 1 in high developed and developing European countries

High developed countries	Developing countries
$GVA_{is} = 571.3923 + 43.70776 \cdot Empl_{is}$ (5)	$GVA_{is} = 833.8031 + 3.095733 \cdot Empl_{is}$ (6)
(0.287) (0.000) (536.1644) (2.373649)	(0.000) (0.000) (210.3851) (0.6297869)

Source: authors' own computation using STATA 13.1 software.

We estimate the standard robust errors in both cases (Table 4) and notice that the estimates of coefficients and errors are the same as those initially estimated (Table 3). The FE model is validated in all its components due to the fact that p – values for constant and Empl are lower than 0.05 as well as the value of Prob. The RE model can be statistically validated as a whole and we notice that the constant is not significant (the p – value for constant is higher than 0.05).

High developed countries RE model						Developing countries FE model					
. xtreg GVA Empl, re theta						. xtreg GVA Empl, fe vce(robust)					
Random-effects GLS regression						Fixed-effects (within) regression					
Group variable: Country						Group variable: Country					
R-sq: within = 0.7645						R-sq: within = 0.3091					
between = 0.8860						between = 0.8139					
overall = 0.7939						overall = 0.4039					
corr(u_i, X) = 0 (assumed)						corr(u_i, Xb) = 0.3369					
theta = 0						(Std. Err. adjusted for 11 clusters in Country)					
-----						-----					
GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	GVA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Empl	43.70776	2.373649	18.41	0.000	39.0555 48.36003	Empl	3.095733	.755557	4.10	0.002	1.412247 4.779219
_cons	571.3923	536.1644	1.07	0.287	-479.4706 1622.255	_cons	833.8051	86.87223	9.60	0.000	640.2417 1027.368
-----						-----					
sigma_u	0					sigma_u	898.87231				
sigma_e	4469.5038					sigma_e	1604.7493				
rho	0 (fraction of variance due to u_i)					rho	.23881928 (fraction of variance due to u_i)				
-----						-----					

Source: authors' own computation using STATA 13.1 software.

The results of all tests run for the RE model are reported in the section B of the Appendix. They are similar to those obtained for the group of 26 European countries (presence of heteroskedasticity, unique correlation parameter for each panel, independent errors within panels, similar AR1 in each panel).

By comparing the estimated equations 4, 5 and 6, we notice that the effect of

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human capital on the output of bioeconomy sectors is higher in the 15 high developed countries as in the group of 26 as well as in the group of the 11 eastern – central European economies. When the number of employees increases with one unit, the increase in GVA is with 43.708776 units, almost twice than in the whole European economy (25 countries) and of 14.3 times higher than in the European developing economies.

5. Conclusions

Through an econometrical analysis of cross – country panel data we found a positive correlation between human capital and gross economic output in 6 bioeconomy sectors within 26 European economies.

We found also that the correlation between human capital and gross output in the bioeconomy sectors is stronger in the highly developed economies as in the central – eastern countries, as well as in the European economy. Possible explanations of these findings could consist in differences in the quality of human capital (skills, knowledge, health, and working conditions), labour productivity, investment in these sectors, or public policies aiming to stimulate their development. Indeed, based on EUROSTAT data, the labour productivity as gross added value per employee in bioeconomy sectors calculated for 2015 has values in a range from 14.7 thousand Euro to 158.5 thousand Euro in high developed countries (Finland) and from 2,4 thousand Euro to 14.1 thousand Euro in developing countries (Bulgaria), meaning a work efficiency of 5.65 to 11.24 times lower in eastern – central European countries.

Further studies are needed to describe and explain these differences and to identify the sources and factors driving the growth of bioeconomy sectors in these countries.

Acknowledgements

The authors thank the anonymous reviewers and editor for their valuable contribution.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not – for – profit sectors.

Author Contributions

ON and FCD conceived the study and were responsible for the design and development of the data analysis. AB and SJ were responsible for data collection and

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analysis and also for data interpretation. GD was responsible for the literature review section.

Disclosure Statement

The authors have not any competing financial, professional, or personal interests from other parties.

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Appendix

A. Tests for equation 1 (26 countries)

1. Heteroskedasticity accross panels

. xtgls GVA Empl, panels(hetero)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: heteroskedastic

Correlation: no autocorrelation

Estimated covariances = 26 Number of obs = 156

Estimated autocorrelations = 0 Number of groups = 26

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Estimated coefficients	=	2	Time periods	=	6
			Wald chi2(1)	=	51.11
			Prob > chi2	=	0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	14.84471	2.076484	7.15	0.000	10.77488	18.91455
_cons	747.8265	187.4618	3.99	0.000	380.4082	1115.245

2. Correlation accross panels (cross sectional correlation)

. xtglm GVA Empl, panels(correlated)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: heteroskedastic with cross-sectional correlation

Correlation: no autocorrelation

Estimated covariances	=	351	Number of obs	=	156
Estimated autocorrelations	=	0	Number of groups	=	26
Estimated coefficients	=	2	Time periods	=	6
			Wald chi2(1)	=	640.97
			Prob > chi2	=	0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	15.97587	.6310241	25.32	0.000	14.73908	17.21265
_cons	1427.746	348.3169	4.10	0.000	745.0571	2110.434

Note: when the number of panels is greater than or equal to the number of periods, results are based on a generalized inverse of a singular matrix.

Note: you estimated at least as many quantities as you have observations.

3. Autocorrelations of errors within panels

. xtglm GVA Empl, panels(hetero) corr(independent)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: heteroskedastic

Correlation: no autocorrelation

Estimated covariances	=	26	Number of obs	=	156
Estimated autocorrelations	=	0	Number of groups	=	26
Estimated coefficients	=	2	Sectors	=	6
			Wald chi2(1)	=	51.11
			Prob > chi2	=	0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
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Empl		14.84471	2.076484	7.15	0.000	10.77488	18.91455
_cons		747.8265	187.4618	3.99	0.000	380.4082	1115.245

```
. xtglm GVA Empl, panels(hetero) corr(ar1)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: heteroskedastic
Correlation: common AR(1) coefficient for all panels (0.2906)
Estimated covariances = 26 Number of obs = 156
Estimated autocorrelations = 1 Number of groups = 26
Estimated coefficients = 2 Sectors = 6
Wald chi2(1) = 70.05
Prob > chi2 = 0.0000
```

GVA		Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
Empl		15.77937	1.885281	8.37	0.000	12.08429 19.47445
_cons		438.6295	191.9815	2.28	0.022	62.35263 814.9063

```
. xtglm GVA Empl, panels(hetero) corr(psar1)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: heteroskedastic
Correlation: panel-specific AR(1)
Estimated covariances = 26 Number of obs = 156
Estimated autocorrelations = 26 Number of groups = 26
Estimated coefficients = 2 Sectors = 6
Wald chi2(1) = 306.00
Prob > chi2 = 0.0000
```

GVA		Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
Empl		16.82222	.961666	17.49	0.000	14.93739 18.70705
_cons		1422.233	235.8799	6.03	0.000	959.9171 1884.549

```
. xtglm GVA Empl, panels(iid) corr(psar1)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: homoskedastic
Correlation: panel-specific AR(1)
Estimated covariances = 1 Number of obs = 156
Estimated autocorrelations = 26 Number of groups = 26
```

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Estimated coefficients = 2 Sectors = 6
 Wald chi2(1) = 64.14
 Prob > chi2 = 0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	14.97996	1.870494	8.01	0.000	11.31386	18.64606
_cons	2951.623	627.3578	4.70	0.000	1722.024	4181.222

B. Tests for equation 1 (15 high developed European countries)

1. Heteroskedasticity across panels

. xtglm GVA Empl, panels(hetero)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: heteroskedastic

Correlation: no autocorrelation

Estimated covariances = 15 Number of obs = 90
 Estimated autocorrelations = 0 Number of groups = 15
 Estimated coefficients = 2 Time periods = 6
 Wald chi2(1) = 363.95
 Prob > chi2 = 0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	43.4199	2.275992	19.08	0.000	38.95903	47.88076
_cons	249.8949	181.521	1.38	0.169	-105.8796	605.6695

2. Correlation across panels (cross-sectional correlation)

. xtglm GVA Empl, panels(correlated)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: heteroskedastic with cross-sectional correlation

Correlation: no autocorrelation

Estimated covariances = 120 Number of obs = 90
 Estimated autocorrelations = 0 Number of groups = 15
 Estimated coefficients = 2 Time periods = 6
 Wald chi2(1) = 9709.00
 Prob > chi2 = 0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	43.95834	.4461224	98.53	0.000	43.08396	44.83273
_cons	446.7039	106.1651	4.21	0.000	238.6241	654.7836

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Note: when the number of panels is greater than or equal to the number of periods, results are based on a generalized inverse of a singular matrix.
 Note: you estimated at least as many quantities as you have observations.

3. Autocorrelation of errors within panels

```
. xtglm GVA Empl, panels(hetero) corr(independent)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: heteroskedastic
Correlation: no autocorrelation
Estimated covariances = 15      Number of obs = 90
Estimated autocorrelations = 0      Number of groups = 15
Estimated coefficients = 2      Time periods = 6
Wald chi2(1) = 363.95
Prob > chi2 = 0.0000
```

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	43.4199	2.275992	19.08	0.000	38.95903	47.88076
_cons	249.8949	181.521	1.38	0.169	-105.8796	605.6695

```
. xtglm GVA Empl, panels(hetero) corr(ar1)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: heteroskedastic
Correlation: common AR(1) coefficient for all panels (-0.0190)
Estimated covariances = 15      Number of obs = 90
Estimated autocorrelations = 1      Number of groups = 15
Estimated coefficients = 2      Time periods = 6
Wald chi2(1) = 364.17
Prob > chi2 = 0.0000
```

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
Empl	43.4105	2.274813	19.08	0.000	38.95195	47.86905
_cons	266.3549	182.0022	1.46	0.143	-90.36282	623.0727

```
. xtglm GVA Empl, panels(hetero) corr(pсар1)
Cross-sectional time-series FGLS regression
Coefficients: generalized least squares
Panels: heteroskedastic
Correlation: panel-specific AR(1)
Estimated covariances = 15      Number of obs = 90
Estimated autocorrelations = 15      Number of groups = 15
Estimated coefficients = 2      Time periods = 6
```

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Wald chi2(1) = 344.00
 Prob > chi2 = 0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
Empl	42.02453	2.265814	18.55	0.000	37.58361 46.46544
_cons	621.2271	195.132	3.18	0.001	238.7754 1003.679

. xtglm GVA Empl, panel(iid) corr(psar1)

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: homoskedastic

Correlation: panel-specific AR(1)

Estimated covariances = 1 Number of obs = 90

Estimated autocorrelations = 15 Number of groups = 15

Estimated coefficients = 2 Time periods = 6

Wald chi2(1) = 340.31

Prob > chi2 = 0.0000

GVA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
Empl	43.23727	2.343818	18.45	0.000	38.64347 47.83107
_cons	809.5885	510.2686	1.59	0.113	-190.5195 1809.697